

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF OHIO (DAYTON)

IN RE: * CASE NO. 19-30822
TAGNETICS INC. * CHAPTER 7
INVOLUNTARY DEBTOR *

RESPONSE TO MOTION TO FORCE ARBITRATION

FROM: Kenneth W. Kayser, Ronald E. Earley

We acknowledge our contracts contain arbitration clauses. Since 2015, we have consulted legal counsel on several occasions and have been consistently advised that arbitrating with an insolvent entity would likely lack efficacy. It is also uncertain whether this court would uphold the arbitration result if Tagnetics is determined to be insolvent.

We both were officers and directors of Tagnetics and were acutely aware of Tagnetics' insolvency. Since 2015, Tagnetics has not been able to pay its obligations to employees or vendors when due or at all. Tagnetics has lost its employees and vendors, closed its facilities in Virginia and Ohio, and put its equipment in storage. We have both resigned from the board of directors in protest of the boards' lack of action to resolve this issue.

Tagnetics did not dispute its liability due to these contracts and took no action to terminate them. Delinquent salaries were consistently accrued and management repeatedly promised to pay the delinquencies soon. We were kept apprised of the accrual of salary, benefits, and unpaid expenses by the CFO until his resignation because of nonpayment of his salary. At the end of fiscal 2016, accrued salaries were \$659,000. We have not had access to recent financials because Kayser has not received documents required by the courts' order and Earley is on vacation. Jon Hager has reviewed 2018 financials he received. He states accrued salaries were reduced to \$128,000 and other significant vendor liabilities are no longer on the balance sheet. There is no explanation for these changes.

We respectfully request the court postpone ruling on the motion to force arbitration until a determination of Tagnetics' solvency is made.

/s/ Kenneth W Kayser 7/15/2019

/s/ Ronald E Earley 7/15/2019